U.S. DEPARTMENT OF EDUCATION

Inspector General's Semiannual Report to Congress, No. 55

April 1, 2007 - September 30, 2007

U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress: No. 55

April 1, 2007 - September 30, 2007

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

October 31, 2007

Dear Madam Secretary:

I am pleased to submit to you, in accordance with the *Inspector General Act of 1978* (the Act), this semiannual report on the activities of the Office of Inspector General for the six-month period ending September 30, 2007. This report highlights our most significant work from the last six months, and reflects our strong commitment to assisting the Department in improving its programs and operations.

The Act requires you to transmit this report within 30 days to the appropriate Congressional committees and subcommittees, together with a report containing any comments you wish to make. Your report should also include the statistical tables specified in section 5(b)(2) and (3) of the Act, and a statement with respect to audit reports on which management decisions have been made, but final action has not been taken, as specified in section (5)(b)(4) of the Act.

I look forward to working with you in furthering our goals and achieving our mission.

Sincerely,

John P. Higgins, Jr.

Enclosure

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

CONTENTS

INSPECTOR GENERAL'S MESSAGE TO CONGRESS

We are pleased to provide this semiannual report on the activities and accomplishments of the Office of Inspector General (OIG), U.S. Department of Education (Department) from April 1, 2007, through September 30, 2007, as required by the *Inspector General Act of 1978*. The audits, inspections, investigations, and other activities highlighted in this report illustrate our on-going commitment to promoting accountability, efficiency, and effectiveness in federal education programs and operations.

Over the last six months, OIG issued 45 audit, inspection, and alternative product reports. We identified nearly $29 million in questioned costs, and over $17 million in unsupported costs. We closed 66 investigations, with over $26.8 million in fines, restitution, settlements, and recoveries. As you will read in the pages of this report, our work continues to identify problems with accountability in the Department's programs and operations we reviewed, specifically its adherence to statutory requirements, and oversight and monitoring of its program participants and contractors. This lack of effective organizational accountability can place taxpayer dollars at risk of waste, fraud, and abuse, and can affect the public's trust in the Department's ability to effectively and fairly carry out its programs and mission.

The U.S. Congress understands the value of accountability in federal education programs, as accountability was a driving factor in the *Elementary and Secondary Education Act of 1965 (ESEA)*, as amended by the *No Child Left Behind Act of 2001 (NCLB)*. Accountability measures were also included in the 2004 reauthorization of the Individuals with Disabilities Education Act, and most recently with the U.S. Senate-passed Higher Education Amendments of 2007. In *NCLB*, for example, public elementary and secondary schools are held accountable for results. The same must hold true for the Department's internal operations: the Department must be held accountable for results. Work conducted by OIG over the last six months shows this to be a challenge for the Department.

As you work to reauthorize the *ESEA/NCLB*, as well as the *Higher Education Act* of 1965, as amended *(HEA)*, I would like to bring to your attention the significant body of work we have conducted on key provisions of these laws. Since 2002, we have released over 200 *ESEA/NCL*B- and *HEA*-related reports, providing recommendations for the Department to improve its administration of the programs or that of its grantees. In instances where we identified areas of the law that may need further clarification or enhancement, we have made suggestions for Congress to consider. Our final reports can be accessed via our website at *www.ed.gov/offices/oig*, and we are available to discuss them with you in more detail.

Finally, while my office has been very productive in this fiscal year, with our limited resources, we face a significant challenge in conducting all of the work necessary to help ensure the integrity of the Department's programs and operations. Throughout the year, a number of the audits we planned to conduct were put on hold, as staff was reassigned to our Congressionally-directed efforts or other pressing work. We remain, however, committed to working with the Department to ensure that its operations and programs provide the best service to the American public.

Thank you for your continued support of our efforts. I look forward to working with the 110th Congress in furthering our goals and achieving our mission.

John P. Higgins, Jr.
Inspector General

OVERVIEW

The Office of Inspector General (OIG), for the period April 1, 2007, through September 30, 2007, continued its work to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). As discussed in this Semiannual Report (SAR), our work identified weaknesses with accountability in the programs and operations we reviewed. The lack of effective organizational accountability can place taxpayer dollars at risk of waste, fraud, and abuse, and can affect the public's trust in the Department's ability to effectively and fairly carry out its programs and mission.

Accountability is essential to success, particularly when it comes to education. The U.S. Congress understands the value of accountability in federal education programs, as accountability was a driving factor in the *Elementary and Secondary Education Act of 1965* (ESEA), as amended by the *No Child Left Behind Act of 2001* (NCLB). Accountability measures were also included in the 2004 reauthorization of the *Individuals with Disabilities Education Act* (IDEA), and most recently in the U.S. Senate-passed *Higher Education Amendments of 2007*. In the ESEA/NCLB, for example, public elementary and secondary schools are held accountable for results. The same must hold true for the Department's internal operations: the Department must be held accountable for results. Work conducted by OIG over the last six months shows this to be a challenge for the Department. This SAR provides summaries of our work that led to these findings, as well as a brief synopsis of the significant recommendations that were presented in each report.

In the first section of this SAR you will find summaries of reports we released over the last six months regarding student financial assistance programs and operations. Due in part to recent OIG audits that disclosed internal control weaknesses and potential conflicts of interest in its student financial assistance programs and operations, the Department and its Federal Student Aid office (FSA) have come under the scrutiny of the U.S. Congress and the media. As the office responsible for administering these programs, FSA must conduct effective monitoring and oversight of its program participants, and it must demand accountability from its staff and contractors to help protect higher education dollars from waste, fraud, and abuse. OIG work conducted over the last six months revealed that this is a significant challenge for FSA, as it does not have the capacity and resources necessary to identify and implement effective oversight and monitoring of its program participants.

The second section of this report includes summaries of the work we concluded in the area of elementary and secondary education programs over the last six months. In recent years we have focused more of our resources on reviewing state educational agency (SEA) and local educational agency (LEA) compliance with important provisions of the ESEA and the IDEA. Work discussed in this section includes a report on how one SEA's failure to adequately monitor LEA compliance with a provision of the ESEA may have led to its disbursement of more than $16.8 million in Title I funds to ineligible schools, and another report that identified $2.3 million in unsupported costs for selected ESEA programs by a single LEA. This section also includes summaries of several significant investigative

cases in the area of elementary and secondary education, including fraud by individuals placed in positions of trust within the elementary and secondary education community, as well as a $19 million civil fraud settlement with the Puerto Rico Department of Education.

In the third section of this report, we highlight the audits and reviews we completed on the Department's information security and management efforts and internal operations, including the results of our annual *Federal Information Security Management Act* review — areas where accountability is vital in protecting the Department's valuable assets and confidential information. Work concluded over the last six months shows continued inadequacies with accountability by the Department in its information security and management and its monitoring and oversight of significant contracts. Because so many of the Department's mission-critical activities are implemented through contracts, it is vital that the Department hold its contractors accountable for delivering the goods and services they were paid to produce.

In the fourth section of our report, we provide summaries of our recent work regarding federal funds to support education-related hurricane relief efforts. As such a large amount of funding was distributed in a short amount of time, establishing effective procedures, processes, and accountability measures early in the implementation process was vital. During this reporting period, we released seven hurricane-related reports, focused on whether specific entities that received hurricane-related dollars from the Department established proper procedures and processes for disbursing the funds, if the entities received the correct amount of funding, and if they spent the funds in accordance with applicable laws and regulations. While, overall, we found that the SEAs and LEAs established procedures and processes for distributing the funds, we identified consistent errors in data reliability, specifically with counts of displaced students, which provide the basis for calculating the amount of Temporary Emergency Impact Aid (EIA) funding the SEAs allotted to LEAs. As a result, the LEAs we reviewed may have received nearly $25 million in EIA funds in excess of their entitlement.

We constantly strive to improve our operations through our work with the Inspector General community. In the fifth section of this report, we highlight our most recent accomplishment: the release of the National Single Audit Sampling Project, the OIG-led multi-year, multi-agency report to determine the quality of single audits and recommend changes in single audit requirements, standards, and procedures to improve the quality of single audits.

In the sixth and final section of this report we include a compilation of tables of the audits, inspections and investigations we concluded during this reporting period, and our overall statistics for Fiscal Year (FY) 2007, as required by the *Inspector General Act of 1978*, as amended. For more information on the work or activities discussed in this report, please contact the OIG Congressional Liaison at (202) 245-7023, e-mail us directly at oigpublicaffairs@ed.gov or visit our website at www.ed.gov/offices/oig.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

Due in part to recent OIG reports that disclosed internal control weaknesses and potential conflicts of interest in its student financial assistance programs and operations, the Department and FSA have come under the scrutiny of the U.S. Congress and the media. The federal student financial assistance programs involve over 6,000 postsecondary institutions, more than 3,000 lenders, 35 guaranty agencies, and many third party servicers. During FY 2007, FSA provided $77 billion in awards and managed an outstanding loan portfolio of over $400 billion. As the office responsible for administering these programs, FSA must conduct effective monitoring and oversight and demand accountability from its staff, program participants, and contractors to help protect higher education dollars from waste, fraud, and abuse. OIG work conducted over the last six months revealed that this is a significant challenge for FSA, as FSA does not have the capacity and resources necessary to identify and implement effective oversight and monitoring of its program participants. In addition, OIG investigative staff continues to aggressively identify cases of theft of student financial assistance funds by those in positions of trust in schools, as well as by students themselves. Summaries of our reports and more significant investigative cases are highlighted below.

FSA Operations

Monitoring of Guaranty Agency Compliance with the Establishment of the Federal Fund and the Operating Fund

The *Higher Education Act of 1965*, as amended by the *Higher Education Amendments of 1998* (HEA), required each guaranty agency to establish a Federal Fund and an Operating Fund. All funds, securities, and other liquid assets of the guaranty agency's Federal Family Education Loan (FFEL) program reserve fund were to be transferred to the Federal Fund, which is the property of the federal government. FSA's Financial Partners Services — the division within FSA that was responsible for the oversight of the FFEL program and its participants — provided technical assistance to the guaranty agencies in meeting this HEA requirement, as well as conducted program reviews to ensure compliance with the HEA.

In 2003, OIG issued a report summarizing our audits of nine guaranty agencies and identified problems with the establishment of the Federal Fund at each agency. Our work showed that the beginning balances of the Federal Fund at the nine guaranty agencies were understated by over $17.8 million. Based on our findings, we made recommendations to FSA aimed at improving its monitoring and oversight of the remaining 27 guaranty agencies not audited by the OIG, including that it conduct program reviews at those 27 guaranty agencies to ensure compliance with this provision of the HEA. In response to our report, FSA agreed to conduct program reviews at these guaranty agencies not previously audited by OIG.

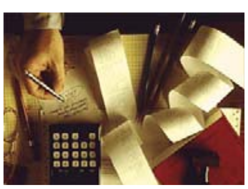
In 2007, we initiated an inspection to determine the progress FSA has made in ensuring compliance by the guaranty agencies in establishing the Funds. We found that FSA had not implemented the agreed-upon corrective actions from 2003, nor had it made any sig-

nificant improvements in oversight. The actions taken by FSA in response to the 2003 report would not ultimately resolve the matters brought to the attention of FSA management and did not appear to take into account the deficiencies identified in the 2003 OIG report. As a result, FSA cannot provide assurance that guaranty agencies have established Federal Funds and Operating Funds in compliance with the HEA. Due to FSA's failure to take effective action, it cannot identify or quantify erroneous payments or lost revenue to the Federal Fund for at least the last four years. Based on our findings, we made a number of recommendations, similar to those we made in our 2003 report, including that FSA perform onsite program reviews to examine supporting records for the establishment of the Federal and Operating Funds at the 27 guaranty agencies not audited by OIG in 2003.

Our 2007 inspection also reinforces the findings of our 2006 report on FSA's Financial Partner's Services, where we found that FSA had a weak control environment for monitoring and oversight and emphasized partnership over compliance with its program participants. Further, during the course of our work, Department officials acknowledged that FSA did not have sufficient staff with the qualifications and knowledge needed to monitor guaranty agencies, lenders, and other participants. This is a weakness that must be addressed. With the billions of dollars supporting federal student financial assistance programs, FSA must take effective steps to improve monitoring and oversight and demand accountability from its staff and program participants. *Click here* for a copy of the report.

Monitoring of FSA Contracts

Procurement is big business in the federal government, and the Department and FSA are no exceptions. For FY 2005, payments under Department contracts totaled more than $1.4 billion; payments under FSA contracts totaled more than $843 million. During this reporting period, we concluded an audit to determine whether FSA's contract monitoring process ensured that its contractors adhered to the requirements of the contract, and that it received the products and services intended. We selected for review 10 contracts for which the highest amount of payments were made during FY 2005, as we considered those to have required the most active contract monitoring. For the contracts reviewed, we found that FSA's monitoring process did not always ensure that contractors adhered to contract requirements or that FSA received the products and services intended. In addition, FSA staff did not always follow established regulations, policies or procedures for nine out of the 10 contracts we reviewed. This occurred because FSA staff was not always familiar with applicable policies and procedures and due to resource limitations. As a result, FSA lacks assurance that payments were proper and its interests were protected. We made a number of recommendations to help improve FSA's contract monitoring processes. FSA concurred with our recommendations. *Click here* for a copy of the report.



Oversight of the FAFSA Verification Process

Students apply for federal student financial assistance by completing a Free Application for Federal Student Aid (FAFSA), which is processed by the Central Processing System (CPS). The CPS uses the application information and the statutory needs analysis formula to calculate each applicant's expected family contribution (EFC). If the EFC is less

than the student's cost of attendance, a student has a financial need and may be eligible to receive student financial assistance. Verification is one of the processes that the Department relies on to ensure that students and parents report accurate information on the FAFSA. In 2002, we conducted an audit of the Department's verification processes and determined that while it generally had adequate controls to select applications for verification, it was not using data collected on the results of school verifications to monitor the effectiveness of the process or the extent to which schools complied with verification requirements. During this reporting period, we conducted a follow-up audit that found that the Department continues to have adequate procedures in place for evaluating the effectiveness of the verification process; however, these procedures could be improved, as they provide only a limited level of assurance that schools perform the required verification. Based on our findings, we made a number of recommendations, including that FSA conduct program reviews, provide technical assistance, or take other actions to ensure that schools have completed verifications and have accurately reported the results to the Department. FSA concurred with our recommendations. *Click here* for a copy of the report.

Title IV Program Participants

PUERTO RICO: EDUCATIONAL TECHNICAL COLLEGE

We conducted an audit at Educational Technical College (EDUTEC) to determine whether the school complied with the HEA and regulations governing institutional eligibility, program eligibility, and return of Title IV program funds. Our review covered the period from July 1, 2005, through June 30, 2006, during which time EDUTEC received over $637,300 in Pell Grant funds for 296 students who withdrew from the school. We found that EDUTEC met federal requirements governing institutional, program, and student eligibility, and that it met requirements for Pell award calculations and disbursements; however, EDUTEC did not consistently comply with federal requirements governing the return of Pell Grant funds because it incorrectly determined some students' withdrawal dates. Projecting the results from our random sample to the overall universe of 296 students, we estimated that EDUTEC failed to return $83,000 to the Department. We made a number of recommendations, including that FSA require EDUTEC to review its records for all students who withdrew from the school during the 2003-2004, 2004-2005, and 2005-2006 award years, recalculate the amount of Title IV programs funds that the students earned, and return the unearned amounts to the Department. EDUTEC concurred with our finding and recommendations, but disagreed with the number of students we identified as exceptions in our sample. *Click here* for a copy of the report.

TEXAS: CAREER POINT INSTITUTE

Career Point Institute (Career Point) is a proprietary school located in San Antonio, Texas. In September, we concluded an audit that sought to determine whether Career Point administered the Title IV programs in accordance with selected requirements of the HEA, including the 90/10 Rule, student eligibility, return of Title IV funds, and Title IV disbursements. The 90/10 Rule requires proprietary schools to demonstrate that at least 10 percent of their revenue is derived from sources other than Title IV of the HEA. The

time period of our review was the 2005-2006-award year, for which Career Point received over $12.5 million in Title IV funds for about 2,100 students. We found that Career Point generally complied with requirements for each provision, except with institutional eligibility and student eligibility: it failed to include Title IV funds received from PLUS loans and disbursed aid to two ineligible students. We recommended that FSA instruct Career Point to ensure that its 90/10 calculations include all Title IV funds, and that it return the amounts paid to ineligible students. Career Point concurred with all of our recommendations. *Click here* for a copy of the report.

Investigations

Identifying and investigating fraud and abuse in the student financial assistance programs has always been a top OIG priority. The following are summaries of some of our more significant cases of student financial assistance fraud conducted over the last six months.

Fraud by School Officials

California: California Business Institute

An OIG investigation revealed that officials at three schools, the California Business Institute (CBI), the United Education Computer College (UECC), and the Mesa Institute (Mesa), allegedly entered into an agreement whereby CBI, a school eligible to participate in Title IV programs, allowed student financial assistance applications from UECC and Mesa, two schools ineligible to participate in Title IV programs, to be processed through CBI. As a result, UECC collected over $2.1 million for ineligible students, while Mesa collected over $700,000 for ineligible students. During this reporting period, a former consultant to all three schools was sentenced to five months in prison and was ordered to pay approximately $2.9 million in restitution for her role in the scheme. Three other individuals -- the former owner of CBI, the former owner of UECC, and the former financial aid director at CBI and UECC -- pled guilty to charges for their participation in the scheme.

Florida: Summit Institute

A former owner and president of the Summit Institute, located in West Palm Beach, Florida, was sentenced to 15 months in prison, followed by three years of supervised release, and was ordered to pay over $393,500 in restitution for student financial assistance fraud. Our investigation, conducted jointly with the Internal Revenue Service Criminal Investigation Division (IRS-CID), found that the former owner failed to return Title IV credit balances and refunds to former Summit Institute students, the Department, and lenders.

Idaho: Continental College

The former owner and operator of Continental College, located in Boise, Idaho, was sentenced to five years of probation for failing to report as income to the IRS-CID over $176,000 in school funds that he converted for his personal use. Our investigation found that the former owner deposited school funds into his personal bank accounts and used them to pay his mortgage, car payments, and personal credit card bills.

Michigan: Metro Tech

Five officials of the Michigan-based Metro Technical Institute (MTI)-- the former owner, executive director, education director, admissions director, and registrar-- were sentenced for their roles in a student financial assistance fraud scheme. Our investigation revealed that MTI owners directed school employees to falsify eligibility, attendance, and grade records to illegally obtain student financial assistance funds and to obstruct a scheduled Department program review. All of the officials involved were ordered to pay over $557,000 in restitution. Sentences ranged from 12 months and one day in prison for the former owner, to community service and/or probation for the other officials. A second MTI owner fled the country and remains a fugitive.

Missouri: Vatterott College-St. Ann

A former admissions representative at Vatterott College-St. Ann, Missouri campus (Vatterott-MO), was sentenced to 124 months in federal prison, and three years of supervised release, and was ordered to pay over $653,000 in restitution for aggravated identity (ID) theft and possession of a false document-making instrument. Our joint investigation with the U.S. Secret Service and Social Security Administration OIG (SSA-OIG) found that the individual obtained employment under a false identity to avoid detection of his extensive criminal history. While working at Vatterott-MO, the former employee manufactured and sold false General Education Development certificates to individuals who used the documents to fraudulently obtain Title IV funds at Vatterott-MO and other schools in the St. Louis, Missouri area.

New Jersey/Pennsylvania: CSC Institute

A co-owner of the CSC Institute, a school with campuses in New Jersey and Pennsylvania, was sentenced to 30 days of incarceration, six months of home confinement, three years of supervised release, and was ordered to pay over $948,000 in restitution, along with a $10,000 fine, for student financial assistance fraud. Our investigation disclosed that the co-owner engaged in a scheme to defraud the Department of student financial assistance funds through the use of falsified attendance records, student tests, and student ledger cards, in order to receive Pell Grants. The individual fraudulently submitted these documents to the Department and CSC Institute’s independent financial/compliance auditor and accreditation agency in order to continue and cover-up the scheme. As a result of the fraud, CSC Institute received approximately $13 million in Pell Grant funds to which it was not entitled, of which the former co-owner and her co-conspirator personally received approximately $3.4 million.

Fraud by College Aid Service Providers

Illinois: College of Financial Aid Services

The business owner of College Financial Aid Services, a student financial aid consulting company, was sentenced to 24 months in prison, three years of supervised release, and was ordered to pay over $470,000 in restitution for fraud. Our investigation revealed that the owner charged clients between $300 and $800 to prepare false federal and institutional aid applications, which were submitted to the Department.

Fraud by Individuals

New York:

A man pled guilty before the New York Supreme Court to charges of grand larceny, ID theft, criminal possession of a forged instrument, and offering a forged instrument. Our investigation, conducted jointly with the New York City Police Department, disclosed

that the man used the identity of another individual to obtain federal and private student loans in excess of $70,000 to attend the Long Island University.

STATE AND LOCAL PROGRAMS

Over the last year, there has been much Congressional and media focus on our 2006-2007 reviews of the Reading First program — work that identified significant weaknesses and potential conflicts of interest in the Department's implementation of the multi-billion-dollar program. Over the last six months, we continued to discuss our Reading First work, and appeared before a Congressional panel to testify to our findings and recommendations. With the ESEA/NCLB scheduled for reauthorization this year, we have also submitted in-depth reviews of key issues and participated in public reviews of draft legislation, providing suggestions as to how to improve the law based on the work we have conducted since passage of the NCLB.

The ESEA/NCLB programs serve more than 14,600 school districts and approximately 54 million students attending more than 94,000 public schools and 27,000 private schools each year. In recent years we have dedicated more of our resources to reviewing SEA and LEA compliance with specific provisions of the ESEA/NCLB, as well as IDEA. We have conducted this work at the request of the Department and Members of Congress, and in response to allegations of waste, fraud, and abuse. As you will see in the pages of this report, this work identified a lack of compliance by SEAs and LEAs with specific provisions of the ESEA/NCLB and IDEA. The Department must improve its oversight and monitoring of its program participants and demand accountability to ensure that program dollars are used as the laws require so they can reach the intended recipients. Below you will find summaries of the work we concluded in this area over the last six months, as well as summaries of some of our significant investigative efforts involving misuse or theft of federal education dollars, including by those in a position of trust to educate our children.

Elementary and Secondary Education Act / No Child Left Behind Act

Congressional Testimony – Reading First

In April, Inspector General Higgins presented testimony before the U.S. House of Representatives Committee on Education and Labor on our series of reports on the Reading First program. Reading First was established to provide kindergarten through third grade reading programs that are based on scientifically based reading research. Our work examined the Department's grant application process, the Department's administration of selected aspects of the Reading First program, and RMC Research Corporation's administration of the Reading First program contracts. We also conducted three audits to assess SEA compliance with the Reading First provisions in Georgia, New York, and Wisconsin. These audits sought to determine whether the SEA developed and used criteria for selecting the scientifically based reading research programs in accordance with

applicable laws, regulations, and guidance, and if it approved LEA applications in accordance with them.

Inspector General Higgins presented a summary of our work, which found that the Department: (1) appeared to inappropriately influence the use of certain programs and assessments; (2) failed to comply with statutory requirements and its own guidance; (3) obscured the requirements of the statute; and (4) created an environment that allowed real and perceived conflicts of interest. He also informed Congress of our recommendations for the Department to address the identified concerns, which the Department accepted. He also suggested that Congress consider clarifying whether reading programs need to have scientific evidence of effectiveness in order to be eligible for funding under the Reading First program and clarifying conflict of interest requirements in federally funded programs. For a copy of the Inspector General's complete testimony, click on this link: http://edlabor.house.gov/testimony/042007JohnHigginstestimony.pdf

ESEA Secretarial Waivers

The ESEA/NCLB requires the Department to send an annual report to Congress summarizing any waivers of provisions of the NCLB the Secretary may have granted, as well as publish the information in the Federal Register. During this reporting period, we concluded an inspection to determine whether the Department had fulfilled this requirement. We found that since the enactment of the NCLB in 2002, the Secretary granted 197 waivers but did not provide reports to Congress. Department officials stated that they would do so in the near future for all waiver activity since 2002. In addition, at the start of our work in February 2007, the Department had not published a notice of the Secretary's decision to grant each waiver in the Federal Register. We recommended that the Department submit an annual waiver report to Congress, as well as regularly publish a notice of each waiver in the Federal Register, as required by the ESEA/NCLB. The Department generally concurred with our finding and recommendations, and in March, published a list of all NCLB Secretarial waivers granted since 2002 in the Federal Register. It also updated its website to include waiver information, and stated that it would also submit a report to Congress on waivers granted since the enactment of the law. *Click here* for a copy of our report.

Unsafe School Choice Option

The issue of safe schools is one that OIG has been closely examining since 1999, first as a part of the *Gun Free Schools Act*, and then as a provision within the ESEA/NCLB. In 2004, we initiated a series of audits on state compliance with the Unsafe School Choice Option (USCO), the findings of which sparked additional review, including a survey of all 50 states. Overall, our efforts disclosed an ineffective identification of persistently dangerous schools (PDS) and a lack of incentive for state compliance with the USCO. In addition, we identified common trends in state USCO policies that are not consistent with the Department's USCO non-regulatory guidance, which is non-binding, yet nonetheless important. This included common violent offenses being excluded from the PDS determination, measuring disciplinary outcomes rather than the occurrence of violent incidents, and requiring thresholds to be met for two to three consecutive years before identifying a school as PDS.

During this reporting period, OIG issued a Perspective Paper on our overall findings and recommendations from our work to assist Congress and the Department in determining whether revisions to the USCO provision are needed. The paper provides three suggestions and discusses other options for Departmental and Congressional consideration -- each aimed at strengthening the USCO statute and providing the incentive needed for state and local officials to comply. Specifically, we suggested that: (1) all violent incidents, according to state code, be factored into the PDS determination, without the use of disciplinary action qualifiers; (2) benchmarks for determining PDS be set at reasonable levels that are supported by objective and reliable data; and (3) PDS be identified based upon the most current year of data. Click here for a copy of the report.

Title I Fiscal Requirements - Comparability of Services

To be eligible to receive ESEA Title I funds, an LEA must use state and local funds to provide services in Title I schools that, taken as a whole, are at least comparable to services provided in non-Title I schools. This is called “comparability of services,” and ensures that an LEA uses state and local funds to provide services to Title I schools that are essentially “comparable” or “the same” as the services that are provided to non-Title I schools. This requirement ensures that Title I schools are not discriminated against in the distribution of local resources. OIG has conducted a number of audits to assess SEA compliance with this provision of the ESEA/NCLB, including one audit concluded during this reporting period. As reported in previous SARs, our work identified a need for improved internal controls by SEAs and LEAs to ensure that they are complying with the statute, as well as a need for improved monitoring and oversight to ensure compliance with the statute.

Illinois:

Our audit found that the Illinois State Board of Education (ISBE) did not adequately monitor LEAs’ compliance with the comparability of services provision in the 2004-2005 and 2005-2006 program years. It did not ensure that LEAs were reporting complete and accurate comparability information or that all LEAs developed sufficient procedures for complying with the comparability of services requirement. Specifically, two of the three LEAs we visited, the Chicago Public Schools (Chicago) and Troy Community Consolidated School District (Troy), reported inaccurate or unsupported comparability information to ISBE. In addition, ISBE did not follow-up with Chicago to ensure it made adjustments to its comparability information. ISBE’s failure to perform adequate monitoring allowed Chicago and Troy to report inaccurate data and allowed non-comparable schools within Chicago to remain non-compliant. Based on our findings, we recommended that the Department require ISBE to return over $16.8 million in Title I funds that Chicago allocated to non-comparable schools, as well as that portion of over $529 million in Title I funds received by any additional schools that ISBE determines to be non-comparable based on Chicago’s recalculation of its comparability determinations for the time period reviewed. ISBE concurred with our findings and all of our recommendations, except for the financial restitutions. Click here for a copy of our report.

Grantee Accountability

New York: Hempstead Union Free School District

Hempstead Union Free School District (Hempstead) is located in Nassau County, New York, and serves approximately 7,000 students in 10 schools. Hempstead expended approximately $7.7 million in Title I program funds during the period from July 1, 2002, through June 30, 2004, of which $1.8 million was for non-salary expenditures. We conducted an audit to determine whether Hempstead's Title I non-salary expenditures were allowable and spent in accordance with applicable laws and regulations. To meet our objective, we randomly and judgmentally sampled $603,375 of the funds and found that Hempstead could not provide adequate support for $118,040 and made $3,220 of unallowable non-salary expenses. We noted that Hempstead had significant internal control weaknesses that could adversely affect its ability to administer education funds. Based on our findings, we made a number of recommendations aimed at improving the accountability of its Title I non-salary expenditures, including that the Department instruct the New York State Education Department (NYSED) to require Hempstead to provide proper support for expenses charged to Title I or return the unsupported amounts to the Department. The NYSED concurred with our findings and recommendations. *Click here* for a copy of our report.

Ohio: Columbus City School District

During this reporting period, we concluded an audit to determine whether the funds Columbus City School District (CCSD) expended for selected ESEA/NCLB programs were allocable, allowable, reasonable, and in accordance with approved budgets. The programs selected were: (1) Title I, Part A – grants to local LEAs; (2) Title II, Part A – improving teacher quality state grants; (3) Title II, Part D, Subparts 1 and 2, as amended – education technology state grants; and (4) Title V, Part A – state grants for innovative programs. CCSD operated 146 schools and career centers and received over $48.5 million in federal funds for these programs during the period of our audit, July 1, 2005, through June 30, 2006. While our audit found that generally, CCSD's expenditure of funds for the programs were allocable, allowable, reasonable, and in accordance with approved budgets, CCSD did not always comply with federal requirements for employee timekeeping or record its capital assets in the equipment inventory system. In 2005, CCSD implemented a new system to track employee time and effort. Our audit estimated that errors in the system and inadequate documentation of all employee personnel charges resulted in charges to the NCLB programs of approximately $210,000 for non-ESEA/NCLB employees and more than $2.3 million for unsupported ESEA/NCLB salaries and wages. Based on our findings, we made a number of recommendations, including that the Department instruct the Ohio Department of Education (ODE) to require CCSD to determine the extent of the ESEA/NCLB funds paid for non-ESEA/NCLB personnel and unsupported pay transactions and return these funds to the Department. The ODE did not specifically state whether it concurred with our findings, but it concurred with most of our recommendations. *Click here* for a copy of the report.

Puerto Rico: Charter Schools

The ESEA, as amended by the *Improving America's Schools Act of 1994*, authorized the Charter Schools Program (CSP) – a grant program to states intended to enhance parent and student choices among public schools and give more students the opportunity to

meet challenging standards. In 1995 and 1999 the Puerto Rico Department of Education (PRDE) submitted CSP grant applications, pursuant to which the Department awarded two grants: one in 1996 for over $4.3 million and a second in 1999 for over $5.8 million. We conducted an audit to determine if the PRDE was authorized by state law to establish charter schools and if it used the CSP funds it received from the Department to operate charter schools. We found that PRDE was authorized by state law to do so under the CSP grant awarded in 1996 and used these funds accordingly; however, we found it was not authorized to do so in 1999 and, thus, improperly used over $5 million in CSP funds to operate unauthorized charter schools. On June 30, 1999, one month after PRDE submitted its CSP grant application to the Department, Puerto Rico repealed the state law that enabled PRDE to establish charter schools. It was replaced with a new law that did not include certain provisions that would make PRDE eligible to receive CSP funds. Based on this finding, we recommended that the Department require PRDE to return over $5 million in CSP funds it was not authorized to receive. PRDE disagreed with our finding and recommendation. *Click here* for a copy of the report.

Investigations

Our investigations into suspected fraudulent activity by SEAs, LEAs, and other federal education grantees have led to the arrest and conviction of a number of individuals who were in positions of public trust for theft or misuse of federal education funds. We will continue to aggressively pursue those who seek to defraud federal education programs at the expense of our nation's students. Here are a few examples of our work in this area over the last six months.

PUERTO RICO:

PRDE Civil Fraud Setttlement.
The PRDE agreed to a $19 million civil fraud settlement agreement for repayment of funds it fraudulently obtained under the Migrant Education Program (MEP). This investigation was opened based on the results of a 2005 OIG audit that determined the PRDE submitted improper child counts for MEP funding for the school district of Puerto Rico. Further investigation found that PRDE was not eligible to receive MEP grant awards in 2002-2005, during which time it received approximately $13.5 million in MEP funds from the Department. According to the settlement, PRDE agreed to repay the Department the $13.5 million for the MEP funds it received, as well as an additional $5.5 million for damages and penalties under the *False Claims Act.*

Former Title I Contractor Sentenced.
A former Title I contractor in Puerto Rico was found guilty before the State Tribunal of San Juan of aggravated bribery and was sentenced to six years in jail. He was charged with making payments of $240,000 for the purposes of securing PRDE contracts issued by the former PRDE Secretary of Education. Our investigation disclosed that the contractor's business was awarded Title I contracts of approximately $37 million and found that the contracts were awarded without full and open competition. As reported in previous SARs, the former PRDE Secretary and the PRDE Associate Secretary are currently

serving 12- and 11-year jail terms respectively, based on charges relating to a $4.3 million contractor kickback scheme.

TEXAS:

Two Former Dallas Independent School District Employees Sentenced.

Two former Dallas Independent School District (DISD) employees were sentenced to prison for embezzlement. Our investigation, conducted jointly with the FBI, revealed that over a three-year period, the individuals used DISD procurement cards to purchase numerous personal items for their own use, including clothing, personal products, and various household items. One of the employees was sentenced to 12 months in prison, followed by two years of supervised release, and was ordered to pay $100,000 in restitution. The second employee was sentenced to 18 months in prison, three years of supervised release, and was ordered to pay over $64,600 in restitution.

Guilty Plea by Former Pharr-San Juan-Alamo Independent School District Contractor.

A former Pharr-San Juan-Alamo Independent School District (PSJA-ISD) contractor pled guilty to conspiracy to commit bribery concerning a program receiving federal funds. Our joint investigation with the FBI and the IRS-CID revealed that the contractor and a co-conspirator paid $65,000 to a PSJA-ISD school board member in order to obtain advantages not available to other companies competing for district-related construction contracts.

WASHINGTON, D.C.:

Former Public School Official Pled Guilty.

The former Executive Director of the District of Columbia's Office of Charter School Oversight pled guilty to theft from a program receiving federal funds and federal tax evasion. The former official admitted to embezzling over $380,000 in ESEA/NCLB and other federal funds from the District of Columbia and steering no-bid contracts totaling over $400,000 to friends and family members in return for over $180,000 in kickbacks and other fraudulent payments. As part of the plea agreement, the former official agreed to pay over $380,000 in restitution. Sentencing is scheduled for November; the official could face a prison term of three years.

INFORMATION SECURITY AND MANAGEMENT AND DEPARTMENT INTERNAL OPERATIONS

OIG's reviews of the Department's information security and management and internal operations are designed to help improve the overall operation of this mission-focused agency. Our reviews seek to help the Department accomplish its objectives by ensuring the reliability and integrity of its data, its compliance with applicable policies and regulations, its ability to safeguard its assets, and that it is effectively and efficiently utilizing the taxpayer dollars with which it has been entrusted. "Information security" is an all-encompassing term that refers to the security of the information systems that are used and the data that is processed. "Information management" is the entire process of defining, evaluating, protecting, and distributing data. These are areas where prior OIG work has identified problems, including security weaknesses that the Department must address to maintain the certification and accreditation of its information systems. During this reporting period, our work revealed much of the same: system security controls

were deficient and did not adequately protect the processing of student financial assistance data, and the Department ineffectively carried out several key project management controls in the re-implementation of its financial management support system.

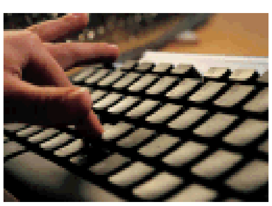
In the area of internal operations, past audits have uncovered problems with grant and contract activities. For example, our 2006 audit of the Department's monitoring process for Institute of Education Sciences' contracts found that the Department staff did not always ensure that contractors adhered to contract requirements, or that the Department received the products and services intended. We identified similar results in an audit on FSA's monitoring of its significant contracts *(discussed previously in this SAR)*, as well as an audit on the effectiveness of the Department's management of the Education Network (EDNet) contract. Our work is discussed in more detail below.

Information Security and Management

Concerns over several government agencies' abilities to provide effective information security and protect critical data have been voiced by Congress and fueled by numerous media accounts of security breaches, missing data, or inappropriate access to government data by outside sources. With so much at stake, the Department must improve its efforts in information security and management and hold its staff and contractors accountable for protecting and managing the systems that house this vital and confidential information. Work concluded during this reporting period identified weaknesses in information security and information management, including information technology (IT) systems and resources.

FISMA Requirement

The *E-Government Act of 2002*, signed into law by President George W. Bush, recognized the importance of information security to the economic and national security interests of the United States. Title III of the *E-Government Act*, entitled the *Federal Information Security Management Act* (FISMA) *of 2002*, requires each federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. It also requires the Inspectors General to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of the agency's compliance with FISMA.



In support of our FY 2007 FISMA requirement, OIG evaluated management, operational, and technical controls of FSA's system security program. The objectives included auditing an FSA-outsourced service provider that hosts the Common Origination and Disbursement (COD) system. The COD system was implemented in April 2002 to create a single system and a common process for processing, storing, and reconciling Federal Pell Grants and Direct Loans. The number of new unique records is estimated at 27.3 million for FY 2007, 30 million for FY 2008, and 33 million for FY 2009. During

our audit, we identified a serious deficiency in FSA's monitoring and oversight of the COD system contractor. In addition, system security controls were deficient and did not adequately protect the processing of student financial assistance program data. We made a series of recommendations to address these weaknesses, with which the Department concurred. Our FISMA audits fall under exemption (b)(2) of the *Freedom of Information Act;* therefore we discuss only the general/public aspects of our work and findings. For security purposes and to maintain the integrity of the Department's critical data, these audits are not posted on our Web site or shared outside official channels.

Financial Management Support System Re-Implementation

During this reporting period, we concluded an audit to assess the effectiveness of overall project management of the Department's Financial Management Support System re-implementation. We found that the Department ineffectively carried out several key project management controls, and its performance measurement baselines were insufficient for accountability and were not adequately maintained. These problems occurred initially because the project management team (PMT) and implementation contractor (IC) did not follow their project management plans. In addition, there was a lack of effective project monitoring and controls by staff in the Office of the Chief Financial Officer, as well as ineffective oversight by the investment's steering committee and IT capital planning and investment control processes. As a result of these weaknesses, the Department's PMT and IC did not adequately account for project results, and system development did not meet scheduled expectations. Also, inaccurate earned value reporting and uncontrolled changes undermined the original project baselines, which had an adverse and cascading effect on risk management and contract administration, including improper payments to the IC. Additionally, decision-makers and stakeholders lacked objective and accurate information about project status for making investment management decisions. Based on our findings, we made a number of recommendations, which the Department stated were extremely useful and would be used to improve the Department's overall effectiveness in system implementations. *Click here* for a copy of the report.

Termination of EDNet Access for Separated Employees

EDNet is a major information system that supports primary IT services for the Department and also serves as the chief communications link between the Department's headquarters and the various regional and satellite offices. In May, we concluded our audit to determine whether access to EDNet was terminated timely for employees who separated from the Department and in cases where it was not, determine whether separated employees accessed EDNet after their departure. We found that improvements were needed in the Department's process for terminating EDNet access for separated employees: requests for account terminations were not submitted timely; documentation of Help Desk actions was not always maintained; and procedures established to identify users whose accounts should be removed were not followed. As a result, accounts belonging to former employees remained active after the employees' separation from the Department. Because these accounts remained active, six individuals accessed their email accounts after their separation date. These separated employees may have used the Department's computer systems for unauthorized purposes. Based on our findings, we made a number of recommendations to ensure EDNet access for separated employees

is terminated in a timely manner. The Department agreed with our findings and proposed corrective actions to strengthen its controls. *Click here* for a copy of the report.

Internal Operations

The success of an organization's mission and the achievement of its goals depend on how well it manages its programs. It cannot effectively manage its programs without establishing and maintaining appropriate accountability. As you will read in the summaries that follow, our recent audits and inspections of a number of Department programs and vendors responsible for high-dollar contracts continue to show a lack of adequate accountability in this area.

Congressional Earmarks

Congressional earmarks are funds provided by Congress for projects or programs where the Congressional direction is included in bill or report language. In January 2007, U.S. Senator Tom Coburn (R-Oklahoma) requested that OIG conduct an independent analysis of the cost, impact, and oversight of Congressional earmarked grants administered by the Department for FY 2005. In response to this request, we initiated an inspection that focused on active earmarks in the two program offices with the majority of earmarks: the Office of Postsecondary Education (OPE) for earmarks included in the Fund for the Improvement of Postsecondary Education (FIPSE); and the Office of Innovation and Improvement for earmarks included in the Fund for the Improvement of Education (FIE). We identified 2,594 active earmarks in these programs in FY 2005, with recipients drawing down more than $369.6 million, and determined that the total cost associated with administering these earmarks was more than $2.1 million. The average amount of staff time spent on all activities relating to administering these earmarks was approximately 6 hours per earmark for FIPSE staff and 35 hours per earmark for FIE staff.

Overall, we determined that the Department experienced a significant increase in the number of Congressional earmarks in FY 2005; however, Congress did not provide the Department with any additional funding for the costs associated with administering earmarks. We determined that roughly 82.7 percent of the earmarks from FIPSE and FIE were aligned with the Department's goals and objectives; however, the Department does not assess whether the earmark projects do or do not further its mission, as the Department has little discretion in determining whether to fund an earmark or whether it should require that an earmark be aligned with the Department's goals and objectives. Department officials stated that earmarks are an inefficient use of taxpayer dollars, and that, by their very nature, earmarks limit the ability of the Department to direct funds where they are most needed and where the funds have the greatest potential for achieving successful outcomes. Based on the findings of our inspection, we recommended that the Department develop a methodology to ensure that earmark recipients are held accountable for the federal funds they receive. The Department generally concurred with our findings and recommendation. *Click here* for a copy of the report.

Management of the EDNet Contract

In 2005, the Department awarded the performance-based EDNet contract to acquire IT network services with the main goal of improving all services to Department customers and lowering costs to the Department. In July 2006, the Department extended the contract for an additional year, with the funding increased to over $45.8 million. We conducted an audit to determine the effectiveness of the Department's management of the EDNet contract, and we found that significant improvement was needed.

Our work revealed that the EDNet contract structure and subsequent changes were not effective in managing contractor performance. Specifically, the structure of the contract did not provide effective performance incentives or disincentives to allow for timely enforcement of an acceptable level of performance. We also found a contract modification was not fully evaluated to consider whether a reduction in cost was appropriate for the reduced level of effort required by the contractor; thus, the contractor had little incentive to perform. In addition, we found that the Department's controls did not ensure the contractor provided the quality and services required by the contract. Department officials also provided inappropriate direction to the contractor that changed the scope, requirements, and/or due dates for some deliverables. This resulted in the Department paying for a quality or level of services it did not receive and an asset management system that did not meet contract requirements and duplicated some activities of other Department contractors. We also noted that the Department's contract administration practices were not effective, as they did not ensure appropriate personnel were assigned to manage and oversee the contract, and the staff that were involved did not always comply with applicable federal regulations and Department policies and procedures. As a result, the Department did not have complete documentation of the contractor's performance. It also lacked assurance that the contractor fully complied with the terms and conditions of the contract, and that the contractor provided all required deliverables for which the Department paid. We made 19 recommendations to help the Department correct the weaknesses identified in our audit. The Department concurred with our findings and recommendations and provided a corrective action plan to address each recommendation. *Click here* for a copy of the report.

Discretionary Grant Award Process in the Office of Postsecondary Education

OPE administers over 40 grant programs that address critical needs to support its mission, including several discretionary grant programs. Funding decisions under discretionary grant programs are based largely on the results of the application review process. We conducted an audit to evaluate the effectiveness of OPE's grant award process and to determine if its FY 2005 awards were made to appropriately qualified entities. While we found that OPE generally established an effective award process and made awards to qualified entities within the programs reviewed, we did note that OPE staff did not ensure grantees complied with the Office of Management and Budget (OMB) Circular A-133 audit requirements. As a result, OPE lacks assurance that grantees are in compliance with reporting requirements and are appropriately managing federal funds. We recommended that the Department take action to ensure that staff is aware of and screens for compliance with audit requirements. OPE concurred with our finding and recommendation. *Click here* for a copy of the report.

Management Procedures under the *Randolph-Sheppard Act* and *Javits-Wagner-O'Day Act*

The *John Warner National Defense Authorization Act of Fiscal Year 2007* included a requirement for OIG and the U.S. Department of Defense Office of Inspector General (DoD-OIG) to jointly review the management procedures under both the *Randolph-Sheppard Act* (RSA) and the *Javits-Wagner-O'Day Act* (JWOD) with regard to military dining facilities. The RSA gives priority to blind persons in the operation of vending facilities on federal property; JWOD, in part, provides employment opportunities to individuals who are blind or have other severe disabilities. During this reporting period, we issued the results of our review. DOD-OIG will be issuing a separate report on the results of its review. First, we determined the Department is not responsible for the administration of the JWOD program; therefore, we did not review nor comment on that program's management procedures. Second, in January, the Government Accountability Office (GAO) issued a report entitled, "Federal Disability Assistance: Stronger Federal Oversight Could Help Assure Multiple Programs' Accountability," where it reviewed four employment-related programs aimed at helping people with disabilities obtain jobs, including the RSA, which is coordinated through the Department of Education. GAO found that no performance goals or measures existed for the RSA program and the Department conducted little oversight. GAO recommended that the Department establish goals for the RSA program and strengthen program monitoring and guidance. Our review was being conducted while GAO was in the process of preparing its final draft report. As a result, we did not identify concerns beyond those reported by GAO, and we found that the Department was developing goals and objectives to improve the program's management, accountability, and performance. The Department concurred with our finding. Click here for a copy of the report.

HURRICANE-RELATED EFFORTS

During this reporting period, OIG continued its efforts to assess whether *Hurricane Education Recovery Act* (HERA) dollars were expended as required by federal law, regulations, and Department guidance. HERA, passed as part of *Public Law 109-148* in 2005, authorized new grant programs to assist school districts and schools in meeting the educational needs of students displaced by Hurricanes Katrina and Rita and to help schools closed as a result of the hurricanes to re-open as quickly and effectively as possible. These programs included the Immediate Aid to Restart School Operations program (Restart), funded at $750 million, and the Temporary Emergency Impact Aid for Displaced Students (EIA) program, funded at $645 million. In addition, the law included $200 million for students and institutions of postsecondary education affected by the hurricanes. In June 2006, Congress appropriated an additional $235 million for the EIA program, and an additional $50 million for postsecondary institutions and students in the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery Act of 2006.* On May 25, 2007, President Bush signed into law the *U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007* (P.L. 110-28). The law provide $30 million more for the higher education programs and $30 million more for recruiting, retaining, and compensating new and current educators in Alabama, Louisiana, and Mississippi.

As such a large amount of funding was distributed in a short amount of time, establishing effective procedures, processes, and accountability measures was vital. During this reporting period, we issued seven reports in this area, specifically assessing procedures and processes established by grant recipients, as well as adherence to the specific program's requirements. While overall we found that the SEAs and LEAs established processes and procedures to distribute hurricane-related funds in accordance with applicable laws and regulations, we did identify problems with the quality of reported data, particularly in the area of displaced student counts, which provide the basis for EIA funding. Below is a summary of the hurricane-related audits we issued during this reporting period.

Alabama

Temporary Emergency Impact Aid Funding

The EIA program provided funds to SEAs to cover the cost of educating displaced students. To receive aid, eligible SEAs were required to provide quarterly enrollment counts of displaced students, and received up to $1,875 per quarter for each displaced student with disabilities and up to $1,500 per quarter for each displaced student without disabilities. The Department obligated over $36.6 million in EIA funds to the Alabama State Department of Education (ALSDE) to disburse to its impacted LEAs. We conducted an audit to determine if the ALSDE and two selected LEAs established adequate systems of internal control to provide accurate displaced student counts. We also examined whether ALSDE made accurate allocations of EIA funds to the LEAs, and if the LEAs used the EIA funds for allowable expenditures. The two LEAs we selected represented about 48 percent of the total displaced students for the state. Our audit revealed that while ALSDE had adequate processes and procedures in place and made accurate allocations of EIA funds to the LEAs, ALSDE and the LEAs did not have adequate systems of internal control to provide accurate EIA displaced student counts. ALSDE's displaced student counts for the time period reviewed included students who should not have been included in the counts and students whose documentation did not support their classifications as students with disabilities. We also found that ALSDE counted some students more than once in the same quarter. As a result, ALSDE received about $4.5 million more in EIA funds than it should have received. We recommended that the Department instruct ALSDE to return the EIA funds it received for students that were not eligible to be classified as displaced students, for those that did not meet the definition of a displaced student with disabilities, and for those students who were counted more than once in the same quarter. ALSDE disagreed with our findings and recommendations. *Click here* for a copy of our report.

Restart Funding

The Restart program provided funding to SEAs in Alabama, Louisiana, Mississippi, and Texas to provide assistance or services to LEAs and non-public schools to help defray expenses related to the restart of operations in the reopening of, and the re-enrollment of, students in elementary and secondary schools. Congress appropriated $750 million for the Restart program, with the Department allotting $3.75 million to Alabama. In determining the Restart amount to be provided to its LEAs for services or assistance, the

ALSDE considered: (1) the number of children served by the LEA or non-public schools for schools that were closed by the hurricanes; (2) the severity of the impact the hurricanes had on the LEA or non-public school; and (3) the extent of the needs of each LEA or non-public school in the impacted areas. As of January 2007, ALSDE had provided funding to just one district, allotting nearly $1 million to the Mobile Public School System (Mobile). We conducted an audit to determine if ALSDE established a system of internal controls that provided reasonable assurance that Restart funds were appropriately allocated, and if Mobile used Restart funds for expenditures that were allowable under the terms of the grant and applicable laws and regulations. Our audit found that both ALSDE and Mobile appropriately allocated and expended the Restart funds. *Click here* for a copy of the report.

Louisiana

TEMPORARY EMERGENCY IMPACT AID FUNDING

Similar to our audit in Alabama, we examined EIA funding at the Louisiana Department of Education (LDE) and four of its LEAs. LDE received over $290 million in EIA funding to assist school districts within the state that served displaced students. EIA funding to LEAs was based on each LEA's quarterly counts of the number of displaced students it served. The four LEAs we reviewed were selected because they had the highest displaced student counts, comprising 48 percent of the EIA funding provided to Louisiana. We found that while LDE made accurate allocations of EIA funds to the LEAs, LDE and the LEAs did not have adequate systems of internal control to provide accurate EIA displaced student counts. LDE submitted incorrect student count data to the Department that included ineligible students, misclassified students, and duplicate students within the state. As a result, LDE received a total estimated overpayment exceeding $6.3 million in EIA funds. In addition, neither the LDE nor the LEAs had policies or procedures in place to ensure incoming displaced students were not counted in other states. We also found that Texas and Louisiana counted the same 533 students in one quarter, which resulted in the LDE and the associated LEAs receiving a possible overpayment of up to $799,500 in EIA funds. We made a number of recommendations, including that the Department require LDE to provide support or repay more than $5.89 million for ineligible students identified at the four LEAs we reviewed, as well as return or provide support for over $411,000 for the statewide duplicate students reported. LDE disagreed with our findings and recommendations. *Click here* for a copy of the report.

HIGHER EDUCATION RELIEF FUNDING

As a result of the damages caused by Hurricanes Katrina and Rita, the federal government allotted $95 million to the Louisiana Board of Regents (BOR) to provide emergency assistance to higher education institutions that were located in an area affected by hurricanes and forced to close, relocate, or significantly curtail their activities. The funds were to be used for student financial assistance, faculty and staff salaries, equipment, instruments, or any purpose authorized under the HEA. The Department and the BOR signed an agreement that provided the funding for a two-year period beginning on January 17, 2006, and ending on January 16, 2008. The agreement required the BOR to allocate the funds by September 30, 2006, and prescribed that the funds were to be used

in accordance with applicable laws and regulations. The Department is responsible for overseeing the BOR's compliance with federal laws and regulations. During this reporting period, we concluded an audit that sought to assess the adequacy of the BOR's internal controls over the allocation of hurricane assistance funding, accounting for the expended funds, and its compliance with laws and regulations. To accomplish our objectives, we assessed the BOR's internal controls at six schools that received 62 percent of the funding: Delgado Community College; Dillard University; Loyola University; University of New Orleans; Tulane University; and Xavier University. Although we found that the BOR had adequate internal controls over the allocation of funding, we determined that it needed to strengthen its controls for monitoring the proper use of the funds and compliance with laws and regulations. The BOR disbursed funds based on expenditure amounts certified by school officials; however, it did not require schools to provide supporting documentation of how the funds were spent.

We recommended that BOR strengthen its monitoring controls by requiring supporting documentation to ensure that expenditures were allowed by the terms of the grant and applicable laws and regulations, and that the expenditures were accurately accounted for and reported. The BOR agreed with the objectives of our recommendations but objected to our conclusion that it had inadequate controls. *Click here* for a copy of the report.

Mississippi

Temporary Emergency Impact Aid Funding

Similar to our audits in Alabama and Louisiana, we examined EIA funding at the Mississippi Department of Education (MDE) and six of its LEAs. MDE received over $100 million in EIA funding for the time period reviewed, and distributed those funds to each LEA based on its quarterly counts of displaced students. The six LEAs we reviewed had the highest displaced student counts, comprising 41 percent of Mississippi's initial total number of displaced students. Our audit found that all six LEAs reported inaccurate displaced student counts to MDE. As a result, MDE may have received more than $3.1 million in excess of its entitlement for EIA funds. We found that MDE and the LEAs had weak internal controls over displaced student counts, and MDE had no mechanism in place to test the reliability of the student count data received from LEAs. We found that LEAs misidentified displaced students, counted displaced students twice in the same quarter, and could not provide complete support for displaced student counts. We made a number of recommendations, including that the Department require MDE to provide support or repay more than $3.1 million for inaccurate counts of displaced students. MDE generally concurred with our finding and related recommendations but did not agree with our use of projections in recommending the return of funds related to the LEAs' misidentification of displaced students. *Click here* for a copy of the report.

Restart Funding

Similar to our audit in Alabama, we conducted an audit of Restart funding at the MDE. Of the $750 million Congress appropriated for the Restart program, over $222 million went to Mississippi. We found that MDE and the five LEAs reviewed in our sample had adequate systems of internal control over the administration of the Restart program for

the public schools, and provided accurate data in the needs assessment and applications. We also found that MDE made accurate allocations of Restart funds to the LEAs. In addition, MDE and the LEAs used Restart funds for expenditures allowable under the terms of the grant and applicable laws and regulations. We did, however, find that MDE had weak internal controls over the program's administration for the non-public schools: MDE awarded a Restart contract to monitor non-public schools to a contractor with an apparent conflict of interest; MDE initially disbursed Restart funds directly to non-public schools in violation of the HERA; and MDE did not maintain public control of the equipment purchased with that disbursement. We made a number of recommendations to address these weaknesses. MDE concurred with our findings, and stated it was taking corrective action to address our recommendations. *Click here* for a copy of the report.

Texas

Temporary Emergency Impact Aid Funding

Similar to our work in Alabama, Louisiana, and Mississippi, we conducted an audit of EIA funds at the Texas Education Agency (TEA) and seven of its LEAs. Of the $880 million Congress appropriated for the EIA program, Texas received $250.9 million. For the time period we reviewed, TEA drew down more than $234.8 million based on LEA quarterly counts of displaced students. The seven LEAs reviewed received a combined $93 million in EIA funds. We found that TEA made accurate allocations of EIA funds to the LEAs, and EIA funds were expended within allowable cost categories. Specifically, TEA allocated the correct amount of funds to the LEAs for students with and without disabilities based on the LEAs' counts, and EIA funds were then used to reimburse the LEAs for salary and benefit costs already incurred. We did find, however, that TEA and the LEAs did not have adequate systems of internal control to provide accurate displaced student count data, which is the basis for the amount of funds received. TEA submitted incorrect student-count data that included ineligible students, misclassified students, and duplicate students within the state. In addition, neither TEA nor the LEAs had policies or procedures in place to ensure incoming displaced students were not counted, in the same quarter, in other states. As a result of the inadequate controls over the displaced student counts, TEA received a total estimated overpayment of over $10 million in EIA funds for the period reviewed. As previously stated, we also found that Texas and Louisiana both counted 533 students in the same quarter, which resulted in TEA and the associated LEAs receiving a possible overpayment of up to $799,500 in EIA funds.

We made several recommendations, including that the Department instruct TEA to provide support for or return approximately $6.9 million of EIA funds for ineligible students identified at the districts we reviewed; provide support or return over $3.4 million of EIA funds for the statewide duplicate students reported; and conduct a statewide count of displaced students for the over $250 million of EIA funds allocated to TEA in school year 2005-2006 and return to the Department any funds expended for ineligible or misclassified students. While TEA concurred with certain aspects of our finding, it did not concur with our recommendations. *Click here* for a copy of our report.

Investigation

INDIANA:

Individual Sentenced for Fraud:

In the wake of the 2005 hurricanes and distribution of billions of dollars in relief funding, the U.S. Department of Justice issued a "zero tolerance" policy for fraud related to hurricane funds. During this reporting period, OIG Special Agents followed-through on that mandate, working with their counterparts from the U.S. Department of Homeland Security OIG and the SSA-OIG on a case involving theft of hurricane relief funding. In May, an individual was sentenced to 105 months in prison, five years of supervised release, and was ordered to pay over $183,000 in restitution for theft of Hurricane Katrina Federal Emergency Management (FEMA) relief funds, false use of social security numbers, and student financial assistance fraud. Our joint investigation revealed that the individual submitted fraudulent applications for and received funds to which he was not entitled from the Department, FEMA, a private educational loan company, and other lending and credit card institutions.

Other Noteworthy Efforts

Non-Federal Audits

Participants in Department programs are required to submit annual audits performed by independent public accountants (IPAs). We perform quality control reviews (QCRs) of these audits to assess their quality. We completed 42 QCRs of audits conducted by 42 different IPAs, or offices of firms with multiple offices. We concluded that 19 (45 percent) were acceptable, 18 (43 percent) were technically deficient, and 5 (12 percent) were substandard.

President's Council on Integrity and Efficiency

Inspector General Higgins continues to chair the Audit Committee of the President's Council on Integrity and Efficiency (PCIE). Highlights from this reporting period include:

RESULTS OF THE NATIONAL SINGLE AUDIT SAMPLING PROJECT

Under the leadership of Committee Chairman Higgins, the PCIE Audit Committee released the results of its National Single Audit Sampling Project. This government-wide Project had two goals: determine the quality of single audits and recommend changes in single audit requirements, standards, and procedures to improve the quality of single audits. Based on the results of a review of 208 randomly selected audits, we estimate that just short of half of the audits in the population from which the sample was drawn – forty-eight point six (48.6) percent – were acceptable; sixteen percent (16%) had significant deficiencies and thus were of limited reliability; and thirty-five point five percent (35.5%) were unacceptable. The sample was stratified into two strata: large single audits, i.e., those reporting expenditures of federal awards of $50 million or more; and those reporting $500 thousand up to $50 million. While the Project results indicate

significant *numbers* of audits that were not acceptable, audits reporting large dollar amounts of federal awards were significantly more likely to be of acceptable quality than other single audits. Whether an audit was deemed acceptable, of limited reliability, or unacceptable was a judgment made based on whether there were deficiencies noted, and if so, their severity. Based on the findings, the Audit Committee made recommendations to OMB. Specifically, it recommended a three-pronged approach to improve audit quality: (1) revise and improve single audit criteria, standards, and guidance to address deficiencies identified by the Project; (2) establish minimum requirements for completing comprehensive training on performing single audits as a prerequisite for conducting single audits and require single audit update training for continued performance of single audits; and (3) review and enhance processes to address unacceptable audits and auditors not meeting established training and continuing professional education requirements. For a copy of the report, click on this link: *http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf*

Reporting Requirements of the Inspector General Act, as Amended

Section	Requirement	Table Number
5(a)(1) and 5 (a)(2)	**Significant Problems, Abuses, and Deficiencies** Activities and Accomplishments	NA
5(a)(3)	**Uncompleted Corrective Actions** Recommendations Described in Previous SARs on which Corrective Action Has Not Been Taken	1
5(a)(4)	**Matters Referred to Prosecutive Authorities** Statistical Profile	7
5(a)(5) and 6(b)(2)	**Summary of Instances where Information was Refused or Not Provided**	NA
5(a)(6)	**Listing of Reports** OIG Audit Services Reports on Department Programs and Activities Other OIG Reports on Department Programs and Activities	2 3
5(a)(7)	**Summary of Significant Audits** Activities and Accomplishments	NA
5(a)(8)	**Audit Reports Containing Questioned Costs** OIG Issued Audit Reports with Questioned Costs	4
5(a)(9)	**Audit Reports Containing Recommendations for Better Use of Funds** OIG Issued Audit Reports with Recommendations for Better Use of Funds	5
5(a)(10)	**Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period** Unresolved Reports Issued Prior to October 1, 2006	6
5(a)(11)	**Significant Revised Management Decisions**	NA
5(a)(12)	**Significant Management Decisions with which OIG Disagreed**	NA
5(a)(13)	**Unmet Intermediate Target Dates Established by the Department** Under the *Federal Financial Management Improvement Act of 1996*	NA

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed							
Section 5(a)(3) of the IG Act as amended requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports.							
Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per Corrective Action Plan)
					Open	Closed	
NEW AUDITS SINCE LAST REPORTING PERIOD							
Office of the Chief Financial Officer (OCFO)							
A05F0015	Department's Monitoring of Adherence to Matching Requirements (SAR 52, page 27)	3/22/2006	6/30/206		1	6	12/31/2007
Office of the Chief Information Officer (OCIO)							
A11F0002	Review of the Department's Incident Handling Program EDNet Security Controls *(OCIO is designated as lead action official and OCFO and FSA as the other action officials)* (SAR 52, page 28)	10/6/2005	11/16/2005		7	2	12/31/2007
A11F0006	Audit of the Department's IT Contingency Planning Program – Asset Classification (SAR 52, page 28)	1/31/2006	5/25/2006		4	0	12/31/2007
AUDITS REPORTED IN PREVIOUS SARs							
FSA							
A04E0006	Death and Total and Permanent Disability Discharges of FFEL and Direct Loan Program Loans (SAR 52, page 27)	11/14/2005	2/24/2006		1	3	3/31/2008
OCFO							
A19D0007	Audit of the Department's Followup Process for External Audits (SAR 50, page 22)	3/31/2005	8/8/2005		1	9	11/30/2007
OCIO							
A19F0009	Telecommunications Billing Accuracy (SAR 52, page 28)	2/1/2006	3/22/2006		4	3	9/30/2008
Office of the Deputy Secretary (ODS)							
A09E0014	Departmental Actions to Ensure Charter Schools' Access to Title I and IDEA Part B Funds *(OESE and OSERS also designated as action officials)* (SAR 50, page 22)	10/26/2004	1/10/2005		3	3	9/30/2007

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Date Resolved	Total Monetary Finding	Number or Recommendations OPEN	CLOSED	Latest Target Date (Per Corrective Action Plan)
Office of Management							
A19D0008	Audit of the Department's Management of the Federal Employees' Compensation Act Program (SAR 50, pg 23)	3/30/2005	5/13/2005	$14,366	0	16	*
Office of Planning, Evaluation & Policy Development							
A11E0003	Audit of the Department's Performance Based Data Management Initiative (SAR 51, page 28)	9/29/2005	3/28/2006		0	14	*

** Closure of audit was not completed in AARTS by the end of reporting period (9/30/2007).*

Table 2: OIG Audit Reports on Department Programs and Activities (April 1, 2007, through September 30, 2007)

Section 5(a)(6) of the IG Act as amended, requires a listing of each report completed by OIG during the reporting period.

Report Number	Report Title	Date Issued	Questioned Costs *	Unsupported Costs	No. of Recomm-endations
AUDIT REPORTS					
FSA					
A02H0005	EDUTEC's Administration of the Federal Pell Grant Program	9/27/07	$83,000		5
A06H0009	Career Point Institute's Administration of Title IV Student Financial Assistance Programs	9/28/07		$4,178	2
A06H0010	Eagle Gate College's Administration of Title IV Student Financial Assistance Programs	9/28/07	$2,630		6
A07G0012	Vatterott College-Omaha's Compliance with Selected Provisions of the HEA and Corresponding Regulations	8/1/07	$37,964		7
A09G0012	Department's Oversight of the FAFSA Verification Process	8/23/07			4
A09G0035	San Diego State University's Eligibility Determination for Federal Pell Grants Awarded to Postbaccalaureate Students Enrolled in Teaching Credential Programs	5/30/07			None
A09H0013	California State University-Chico's Administration of the FWS Program	8/23/07	$977		6

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recomm-endations
A11H0001	FY 2007 System Security Review of the COD System *(OCIO also designated as action official)*	9/27/07			68
A19G0006	Controls Over Contract Monitoring for FSA Contracts	8/24/07			6
OCFO					
A02H0001	Puerto Rico Department of Education's Use of Charter Schools Program Funds	9/25/07	$5,015,367 *		2
A11F0005	Effectiveness of the Department's Financial Management Support System Oracle 11i Re-Implementation *(Report recommends Chief of Staff/OS direct the Investment Review Board Chair, CFO, and CIO to take recommended actions)*	6/26/07			9
A17G0012	Digital Analysis of Department Purchase Card Activity	6/13/07			2
OCIO					
A19G0012	Termination of EDNet Access for Separated Employees	5/23/07			4
OESE					
A02G0007	Hempstead Union Free School District's ESEA Title I, Part A Non-Salary Expenditures	4/10/07	$3,220	$118,040	11
A04G0012	Audit of Mississippi Department of Education's Emergency Impact Aid Program Controls and Compliance	8/8/07	$3,192,395		4
A04G0013	Audit of Mississippi Department of Education's Immediate Aid to Restart School Operations Controls and Compliance	9/7/07			5
A05G0020	Audit of the Alabama State Department of Education's and Two Selected Local Educational Agencies' Compliance with Temporary Emergency Impact Aid Program Requirements	9/27/07	$3,742,000	$837,375	5
A05G0021	Audit of the Alabama State Department of Education's and Mobile County Public School System's Compliance with Immediate Aid to Restart School Operations Program Requirements	8/9/07			None

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recomm-endations
A05G0031	Columbus City School District's Compliance with Financial Accountability Requirements for Expenditures Under Selected NCLB Programs	6/20/07	$3,005	$45,153	8
A05G0033	Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirements	6/7/07	$16,809,020		8
A06G0009	Audit of the Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable Local Education Agencies	9/18/07		$10,270,000	4
A06G0010	Louisiana Department of Education's Compliance with HERA Temporary Emergency Impact Aid for Displaced Students Requirements	9/21/07		$6,303,000	4
Office of Postsecondary Education (OPE)					
A06G0011	Louisiana Hurricane Relief Funding	4/18/07			2
A19G0001	Audit of the Discretionary Grant Award Process in the Office of Postsecondary Education	4/16/07			1
Office of Secretary (OS)					
A19G0009	The Department's Management of the EDNet Contract *(Report addressed to Chief of Staff/OS, who is requested to ensure CIO and CFO take recommended actions)*	4/17/07			19
Office of Special Education and Rehabilitative Services (OSERS)					
A05H0008	Indian Springs District 109's Use of IDEA Funds	6/22/07	$29,472		2

Report Number	Report Title	Date Issued	Questioned Costs	Unsupported Costs	No. of Recomm-endations
ALTERNATIVE PRODUCTS					
OCFO					
F02H0012	National Assessment of Educational Progress (NAEP) 2008-2012 Proposal Submitted Under Request for Solicitation No. ED-07-R-0007: Volume I – Alliance Coordination *(Pre-award Attest Service)*	7/25/07			None
F02H0013	NAEP 2008-2012 Proposal Submitted Under Request for Solicitation No. ED-07-R-0007: Volume II – Design, Analysis & Reporting *(Pre-award Attest Service)*	8/3/07			None
F02H0014	NAEP 2008-2012 Proposal Submitted Under Request for Solicitation No. ED-07-R-0007: Volume III – Item Development *(Pre-award Attest Service)*	8/3/07			None
F02H0019	Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) Proposal Submitted Under Request for Solicitation No. ED-07-R-0034 *(Pre-award Attest Service)*	9/21/07			None
F02H0020	EDUCATE Request for Solicitation No. ED-07-R-0034 *(Pre-award Attest Service)*	9/21/07			None
F03H0011	EDUCATE Proposal Submitted under Request for Solicitation No. ED-07-R-0034 *(Pre-award Attest Service)*	9/24/07			None
F07H0016	NAEP Proposal *(Pre-award Attest Service)*	8/23/07			None

* For purposes of this schedule, questioned costs may include other recommended recoveries. Please see footnote 3 under Table 4 for additional information regarding questioned and unsupported costs. All of the funds in this column for A02H0001 are other recommended recoveries.

DESCRIPTION OF ALTERNATIVE PRODUCTS

Interim audit memoranda are used to notify Department management or the audited entity of a serious and urgent condition or issue identified during an on-going audit assignment when there is a strong likelihood that waiting until the audit report's issuance would result in the loss of an opportunity to prevent or curtail significant harm to the Department's interest. *One interim audit memorandum* was issued during the SAR 55 period. It is OIG policy to include interim audit memoranda in our product count but not individually identify them in SAR Table 2, nor post them on the OIG Internet/Intranet website due to their pre-decisional and interim nature. Recommendations made in these products are tracked and resolved under the subsequently issued final audit report.

Pre-award Attest Services are provided by OIG in response to requests by Department contracting or program office staff. These include performing field pricing support or making an assessment of an offeror's accounting system. Since the results of pre-award attest services are used in the contract negotiation process, the contents of resulting reports are considered to be confidential. Names of bidders have been extracted from report titles in the interest of preserving bidder privacy and confidentiality.

Table 3: Other OIG Reports on Department Programs and Activities (April 1, 2007, through September 30, 2007)

Section 5(a)(6) of the IG Act as amended, requires a listing of each report completed by OIG during the reporting period.

Report Number	Report Title	Date Issued
FSA		
I13H0001	Review of FSA's Monitoring of Guaranty Agency Compliance with the Establishment of the Federal Fund and the Operating Fund [1] *(Inspection Report)*	9/7/07
OCIO		
L11H0002	Information Security Risk – Keylogger Vulnerability [2] *(Alert Memorandum – IT Audit Division 07-01 Addressed to the Senior Counselor to the Secretary/OS, and requests OS to require OCIO and FSA take suggested actions)*	7/2/07
S11H0003	FY 2007 FISMA Submission *(Special Project addressed to the Chief of Staff/OS)*	9/25/07
ODS		
I13H0004	Inspection of Active Congressional Earmarks in FY 2005 [1] *(Inspection Report)*	9/25/07
OESE		
I13H0003	Inspection of the Department's ESEA Secretarial Waiver Requirements [1]*(Inspection Report)*	4/5/07
L02H0011	Virgin Islands Department of Education Third Party Fiduciary Has Been Ineffective in Providing Fiscal Oversight and Management of Department of Funds [2]*(Alert Memorandum – State and Local No. 07-02)*	9/26/07
L06H0008	HERA Temporary Emergency Impact Aid [2] *(Alert Memorandum – State and Local No. 07-01)*	6/18/07
OPE		
L06H0012	Possible Duplication of Effort under FIE and Gaining Early Awareness and Readiness for Undergraduate Programs Grants [2] *(Alert Memorandum – State and Local No. 07-03. OII also designated as an action official. As of 9/30/2007, OPE was identified as the lead office. As of 10/22/2007, OII agreed to take the position as lead program office on the audit.)*	9/27/07
Office of Safe and Drug-Free Schools (OSDFS)		
S03G0015	OIG Perspective on the Unsafe School Choice Option [3] *(Special Project)*	8/2/07
Office of Special Education and Rehabilitative Services (OSERS)		
A19H0001	Management Procedures Under the *Randolph–Sheppard Act* and *Javits-Wagner-O'Day Act (Inspection Report)*	7/31/07
Office of the Under Secretary (OUS)		
L21H0012	Information Security Risk – Capturing of Internet Protocol Addresses [2] *(Alert Memorandum – TDC-07-01)*	5/3/07

DESCRIPTION OF TABLE 3 PRODUCTS

[1] I13H0001 made five non-monetary recommendations; I13H0004 made one non-monetary recommendation; and I13H0003 made two non-monetary recommendations

[2] L11H0002 made three non-monetary suggestions; L02H0011 made one non-monetary suggestion; L06H0008 made two non-monetary suggestions and one monetary suggestion questioning $799,500 in costs; L06H0012 made one non-monetary suggestion; and L21H0012 made one non-monetary suggestion

[3] S03G0015 made six non-monetary suggestions for the Department and Congress to consider in legislative changes

Alert memoranda are prepared when a serious condition is identified that requires immediate Department management action that is either outside the agreed-upon objectives of an on-going audit or inspection assignment or is identified while engaged in work not related to an on-going assignment when an audit or inspection report will not be issued. Alert memoranda are not on the OIG website and are not publicly distributed. *Alert memoranda* are coded "L" in the OIG's Audit Tracking System.

Inspections are analyses, evaluations, reviews or studies of the Department's programs. The purpose of an inspection is to provide Department decision makers with factual and analytical information, which may include an assessment of the efficiency and effectiveness of their operations, and vulnerabilities created by their existing policies or procedures. They are performed in accordance with the 2005 President's Council on Integrity and Efficiency Quality Standards for Inspections appropriate to the scope of the inspection. *Inspections* are coded "I" in the OIG's Audit Tracking System.

Special projects are work that result in the issuance of a product or report that may not follow audit, inspection, or investigation standards. *Special Projects* are coded "S" in the OIG's Audit Tracking System.

Table 4: OIG Issued Audit Reports with Questioned Costs[1]

Section 5(a)(8) of the IG Act as amended, requires for each reporting period a statistical table showing the total number of audit reports, the total dollar value of questioned and unsupported costs, and responding management decision.

		Number	Questioned[2] Costs	Unsupported [3] Costs
A.	For which no management decision has been made before the commencement of the reporting period (as adjusted)	42	$978,998,573	$220,966,854
B.	Which were issued during the reporting period	14	$46,496,796	$17,577,746
	Subtotals (A + B)	56	$1,025,495,369	$238,544,600
C.	For which a management decision was made during the reporting period	7	$14,946,880	$7,826,426
	(i) Dollar value of disallowed costs		$14,946,880	$7,826,426
	(ii) Dollar value of costs not disallowed		$0	$0
D.	For which no management decision was made by the end of the reporting period	49	$1,010,548,489	$230,718,174
E.	For which no management decision was made within six months of issuance	35	$964,051,693	$213,140,428

[1] None of the audits reported in this table were performed by the Defense Contract Audit Agency

[2] Questioned costs are costs that are questioned because of either an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds or a finding that, at the time of the audit, such cost is not supported by adequate documentation or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. Other recommended recoveries are funds recommended for reasons other than questioned costs. Since the IG Act does not provide for this type of monetary finding, other recommended recoveries are combined with the "questioned costs" category for reporting in the SAR. The category is usually used for findings involving recovery of outstanding funds and/or revenue earned on Federal funds. The amount also includes any interest due the Department resulting from auditees' use of funds. In addition, amounts reported for this category are combined with unsupported costs for reporting in the SAR.

[3] Unsupported costs are costs that are questioned because, at the time of the audit, such costs were not supported by adequate documentation.

Table 5: OIG Issued Audit Reports with Recommendations for Better Use of Funds*

Section 5(a)(9) of the IG Act as amended, requires for each reporting period a statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use by management.

		Number	Dollar Value
A.	For which no management decision has been made before the commencement of the reporting period (as adjusted)	3	$892,327,577
B.	Which were issued during the reporting period	0	$0
	Subtotals (A + B)	3	$892,327,577
C.	For which a management decision was made during the reporting period (i) Dollar value of recommendations that were agreed to by management (ii) Dollar value of recommendations that were not agreed to by management	 0 0	 $0 $0
D.	For which no management decision has been made by the end of the reporting period	3	$892,327,577
E.	For which no management decision was made within six months of issuance	3	$892,327,577

** None of the audits reported in this table were performed by the Defense Contract Audit Agency.*

Table 6: Unresolved Reports Issued Prior to April 1, 2007

Section 5(a)(10) of the IG Act as amended, requires a listing of each report issued before the commencement of the reporting period for which no management decisions had been made by the end of the reporting period. (Status below represents comments provided by the Department, comments agreed to, or documents obtained from AARTS.)

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
New Since Last Reporting Period				
FSA				
A06F0018	Philander Smith College's Administration of Title IV Student Financial Assistance Programs Needs Improvement (SAR 54, pg 29)	11/2/06	$476,167	20
	Status: *AARTS shows FSA Administrative Stay was approved on 8/2/2007. FSA informed us it is currently working on this audit.*			
A09G0026	Morton College's Verification of Applicant Information Submitted on the FAFSA (SAR 54, pg 29)	3/26/07		2
	Status: *FSA informed us that the audit was closed on 9/14/2007. Audit Liaison Officer (ALO) waiting on documentation from Case Team to close the audit in AARTS. This audit is not considered resolved or closed until it is certified through AARTS.*			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Finding	No. of Recommendations
A09G0027	School of the Art Institute of Chicago's Verification of Applicant Information Submitted on the FAFSA (SAR 54, pg 29)	3/26/07		2
	Status: *FSA informed us that the audit was closed on 9/14/2007. ALO waiting on documentation from Case Team to close the audit in AARTS. This audit is not considered resolved or closed until it is certified through AARTS.*			
A09G0033	East Carolina University's Verification of Applicant Information Submitted on the FAFSA (SAR 54, pg 30)	3/26/07	$1,464	6
	Status*: FSA informed us that the audit was closed on 9/13/2007. ALO waiting on documentation from Case Team to close the audit in AARTS. This audit is not considered resolved or closed until it is certified through AARTS.*			
OCFO				
A07G0013	Parental Information and Resource Center Grant at The Learning Exchange (SAR 54, pg 30) *(OII also designated as an action official)*	11/16/06	$436,664	7
	Status: *OCFO informed us that the Program Determination Letter (PDL) was issued on 10/9/07. The documentation required for resolution of this audit is needed in AARTS.*			
A09G0010	KIPP Foundation's Administration of the FIE Grants (SAR 54, pg 30) *(OII also designated as an action official)*	12/6/06	$4,391	6
	Status: *OCFO informed us that it needs to review and analyze information.*			
A17G0003	Financial Statement Audits FY 2006 and FY 2005 (SAR 54, pg 30) *(FSA also designated as an action official)*	11/15/06		5
	Status: *No comments were provided to OIG.*			
OESE				
A02F0023	Virgin Islands Department of Education Administration of the Learning Point Associates Contract (SAR 54, pg 31)	1/30/07		2
	Status: *OESE informed us that the PDL was issued on 7/10/2007; however, OIG had a substantial disagreement with the PDL.*			
A02G0002	Audit of New York State Education Department's Reading First Program (SAR 54, pg 31)	11/3/06	$215,832,254	8
	Status: *AARTS shows that OESE administrative stay was approved on 9/24/2007.*			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A03F0022	RMC Research Corporation's Administration of the Reading First Program Contracts (SAR 54, pg 31) *(OCFO also designated as an action official)*	3/7/07		3
	Status: *AARTS shows OESE administrative stay was approved on 9/24/2007.*			
A03G0006	The Department's Administration of Selected Aspects of the Reading First Program (SAR 54, pg 31) *(OCFO also designated as an action official)*	2/22/07		3
	Status: *OESE informed us that this is an internal audit with ongoing corrective action.*			
A04G0003	Review of the Georgia Reading First Program (SAR 54, pg 31)	1/18/07		1
	Status: *Documentation that was provided by OCFO-Post Audit Group (PAG) and AARTS shows OESE administrative stay was approved on 9/28/2007.*			
A05G0011	Wisconsin Department of Public Instruction's Reading First Program (SAR 54, pg 31)	10/20/06	$5,844,522	2
	Status: *Documentation that was provided by OCFO-PAG and in AARTS shows OESE administrative stay was approved on 9/28/2007.*			
A05G0015	Ohio Department of Education's Title I, Part A, Comparability of Services Requirement (SAR 54, pg 31)	11/13/06	$315,012	6
	Status: *OESE informed us that the PDL was issued on 9/27/2007. The required documentation for resolution of this audit is needed in AARTS.*			
A05G0034	Indiana Schools' Implementation of Schoolwide Plans Under the NCLB Act of 2001 (SAR 54, pg 31)	3/15/07		5
	Status: *OESE informed us that the PDL was issued on 9/20/2007. The required documentation for resolution of this audit is needed in AARTS.*			
A09F0024	California Department of Education's Migrant Education Program (SAR 54, pg 31)	12/1/06	*	6
	Status: *Documentation provided by OCFO-PAG and in AARTS shows OESE extension of administrative stay was approved on 9/24/2007.*			
A09G0020	Arizona Department of Education's Oversight of the ESEA, Title I, Part A Comparability of Services Requirement (SAR 54, pg 31)	3/26/07	$10,185,915	11
	Status: *OESE informed us that the PDL was issued on 10/3/2007. The required documentation for resolution of this audit is needed in AARTS.*			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Finding	No. of Recomm-endations
OSERS				
A06F0019	Results of five audits of the IDEA, Part B requirements at schools under the supervision of the Department of Interior's Bureau of Indian Affairs (SAR 54, pg 32) *(Report was addressed to the Bureau of Indian Education, Department of the Interior)*	3/28/07	$328,000,000	6
	Status: *OSERS informed us that it initiated closure on the audit. The required documentation for resolution of this audit is needed in AARTS.*			
Reported in Previous SARs				
FSA				
A04B0015	Review of Cash Management and Student Financial Assistance Refund Procedures at Bennett College *(OPE designated as collateral action office for this report)* (SAR 45, pg 16)	9/26/02	$997,313	7
	Status: *FSA informed us that the audit was resolved by FSA on 8/22/2003, which is reflected in AARTS. The required audit clearance document contains errors that have never been corrected after it was created in AARTS on 3/14/2003.*			
A04B0019	Advanced Career Training Institute's Administration of the Title IV HEA Programs (SAR 47, pg 13)	9/25/03	$7,472,583	14
	Status: *No comments were provided to OIG. FSA previously informed us that the audit should be closed by 9/30/2007 in AARTS.*			
A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown, TN (SAR 49, pg 14)	9/23/04	$2,458,347	7
	Status: *FSA informed us that it is waiting on policy decision to address and resolve this audit.*			
A05E0013	Audit of the Administration of the Student Financial Assistance Programs at the Ivy Tech State College Campus in Gary, Indiana, During the Period July 1, 2002, through June 30, 2003 (SAR 50, pg 21)	2/25/05	$1,645,160	3
	Status: *FSA informed us that the audit was closed on 1/22/2007. Audit will be closed by 3/31/2008 in AARTS. This audit is not considered resolved or closed until it is certified through AARTS.*			
A0670005	Professional Judgment at Yale University (SAR 36, pg 18) ***Status:*** *FSA informed us that it is waiting on policy decision to address and resolve this finding in the final audit determination letter.*	3/13/98	$5,469	3
A0670009	Professional Judgment at Univ. of Colorado (SAR 37, pg 17) ***Status:*** *FSA informed us that it is waiting on policy decision to address and resolve this finding in the final audit determination letter.*	7/17/98	$15,082	4

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A06D0018	Audit of Saint Louis University's Use of Professional Judgment for the Two-Year Period from July 2000 Through June 2002 (SAR 50, pg 21)	2/10/05	$1,458,584	6
	Status: *FSA informed us that it is waiting on policy decision to address and resolve this finding in the final audit determination letter.*			
A0723545	State of Missouri, Single Audit Two Years Ended June 30, 1991	4/1/93	$1,048,768	18
	Status: *FSA is currently researching options to resolve this issue.*			
A0733123	State of Missouri, Single Audit Year Ended June 30, 1992	3/7/94	$187,530	18
	Status: *FSA is currently researching options to resolve this issue.*			
A07F0017	Special Allowance Payments to Nelnet for Loans Funded by Tax-Exempt Obligations (see note 1) (SAR 53, pg 24)	9/29/06	$278,000,000	2
	Status: *No comments were provided to OIG. FSA previously informed us that based on the settlement agreement between the Department and Nelnet, this audit should be considered closed. Audit will be removed from the overdue listing after all actions are completed in AARTS.*			
A09D0024	American River College's Compliance with Student Eligibility Requirements for Title IV Student Aid Programs (SAR 50, pg 21)	12/1/04	$3,024,665	3
	Status: *FSA informed us that the audit is currently being reviewed by its San Francisco Case Team.*			
A09F0008	University of Phoenix's Processing of Return of Federal Student Aid for HEA, Title IV Programs (SAR 51, pg 26)	12/22/05	(see note 2)	3
	Status: *FSA informed us that the audit is currently being reviewed by its San Francisco Case Team.*			
N0690010	Inspection of Parks College's Compliance with Student Financial Assistance Requirements (SAR 40, pg 18)	2/9/00	$169,390	1
	Status: *FSA informed us that the Dallas Case Team denied school's recertification on December 31, 1999. School closed February 5, 2000. FSA ALO did search of AARTS and Audit Control Number is not in AARTS. The required documents for resolution of this audit are needed in AARTS.*			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	No. of Recomm-endations
OCFO				
A02E0008	Department Funds Disbursed for New York City Department of Education Telecommunication Services (SAR 51, pg 26)	6/14/05	$6,756,824	8
	Status: *OCFO informed us that the audit is resolved. The required documentation for resolution of this audit is needed in AARTS.*			
A03F0010	The Education Leaders Council's Drawdown and Expenditure of Federal Funds (SAR 52, pg 8) *(OII also designated as action official)*	1/31/06	$760,570	12
	Status: *All resolution activities have been suspended until further notice.*			
A05D0041	University of Illinois at Chicago's Upward Bound Project (SAR 50, pg 22) *(OPE also designated as action official)*	12/20/04	$223,057	8
	Status: *OCFO informed us that it needs to review and analyze recent information.*			
A05E0002	Audit of the University of Illinois at Chicago's Student Support Services Program (SAR 50, pg 22) *(OPE also designated as action official)*	12/15/04	$260,050	6
	Status: *OCFO informed us that it needs to review and analyze recent information.*			
A05E0018	University of Illinois at Chicago's Upward Bound Math and Science Project (SAR 50, pg 22) *(OPE also designated as action official)*	12/17/04	$274,493	7
	Status: *OCFO informed us that it needs to review and analyze recent information.*			
A07D0002	Audit of the Talent Search Program at Case Western Reserve University (SAR 47, pg 14)	7/11/03	$212,428	5
	Status: *OCFO informed us that it is continuing to work with OPE to resolve the monetary findings in the audit report.*			
A09F0010	Pittsburg Pre-School and Community Council, Inc.'s Use of Early Reading First and Migrant Education Even Start Grant Funds (SAR 52, pg 9) *(OESE also designated as action official)*	3/17/06	$910,217	21
	Status: *OCFO informed us that it needs to review and analyze recent information.*			
A09F0020	Sheldon Jackson College's Administration of Fund for the Improvement of Postsecondary Education Grants (SAR 52, pg 11) *(OPE also designated as action official)*	2/24/06		2
	Status: *OCFO informed us that it needs to review and analyze recent information.*			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	No. of Recomm-endations
OESE				
A02F0005	New Haven School District's Administration of Title I, Part A Summer and After School Programs (SAR 53, pg 25)	4/11/06	$3,780,000	4
	Status: *No comments were provided. OESE previously informed us that the audit is pending resolution. Program reviewing voluminous work papers and rebuttals submitted by Connecticut.*			
A04F0011	Audit of the Georgia Department of Education's Migrant Education Program (SAR 52, pg 4)	1/12/06		7
	Status: *AARTS shows OESE administrative stay was approved on 9/24/2007.*			
A05C0012	Audit of East Cleveland City Schools' Administration of the 21st Century Community Learning Centers Grant at Kirk Middle School for the period June 1, 1998, through December 31, 2001 (SAR 45, pg 18)	9/18/02	$349,637	9
	Status: *No comments were provided. OESE previously informed us that the audit is pending a Departmental review.*			
A06E0008	Audit of the Title I Funds Administered by the Orleans Parish School Board for the Period July1, 2001, through December 31, 2003 (SAR 50, pg 23)	2/16/05	$73,936,273	7
	Status: *Documentation provided by OCFO-PAG and AARTS shows OESE administrative stay was approved on 9/28/2007.*			
A06F0013	Oklahoma State Department of Education's Migrant Education Program (SAR 52, pg 4)	3/21/06	$509,000	3
	Status: *Documentation provided by OCFO-PAG and in AARTS shows OESE administrative stay was approved on 9/24/2007.*			
A06F0016	Arkansas Department of Education's Migrant Education Program (SAR 53, pg 25)	8/22/06	$877,000	2
	Status: *AARTS shows OESE extension of administrative stay was approved on 5/24/2007.*			
OPE				
A07B0011	Audit of Valencia Community College's Gaining Early Awareness and Readiness for Undergraduate Programs Matching Requirement (SAR 47, pg 15)	5/8/03	$1,822,864	5
	Status: *OPE informed us that it continues to work on this audit.*			
OSERS				
A02B0014	Audit of the Puerto Rico Vocational Rehabilitation Administration (SAR 45, pg 18)	6/26/02	$15,800,000	5
	Status: *OSERS agrees that the audit is open and continues to work diligently towards completion.*			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	No. of Recomm-endations
A02E0020	The Virgin Islands Department of Health's Administration of the Infants and Toddlers Program *(see note 3)* (SAR 51, pg 28)	9/28/05		17
	Status: *OSERS agrees that the audit is open and continues to work diligently towards completion.*			
	* We identified significant numbers of ineligible children in this report, but did not project estimated questioned costs. We recommended that more thorough reviews be conducted to determine the total numbers of ineligible children and the return of funds expended for the ineligible children found.			
Note 1 -	Audit Report A07F0017 contained a one-time better use of funds (BUF) of $882,000,000			
Note 2 -	Audit Report A09F0008 identified a one-time BUF of $10,000,000			
Note 3 -	We identified $327,577 in one-time BUF in audit A02E0020			

Table 7: Statistical Profile - FY 2007	Six-Month Period Ending 3/31/2007	Six-Month Period Ending 9/30/2007	FY 2007 Total
OIG Audit Reports Issued	34	26	60
Questioned Costs	$447,259,268	$28,919,050	$476,178,318
Unsupported Costs	$113,837,121	$17,577,746	$131,414,867
Recommendations for Better Use of Funds	$0	$0	$0
Other OIG Products Issued *(2 Alert Memoranda, 2 Attestation Reports, 1 Audit Closeout Letter, 1 Inspection, 1 Interim Audit Memorandum, 4 Management Information Reports, 1 Special Project)*	12	19	31
OIG Audit Reports Resolved By Program Managers	44	24	68
Questioned Costs Sustained	$9,912,714	$7,120,454	$17,033,168
Unsupported Costs Sustained	$27,055,127	$7,826,426	$34,881,553
Additional Disallowances Identified by Program Managers	$14,314,236	$32,665	$14,346,901
Management Commitment to the Better Use of Funds	$230,721,199	$0	$230,721,199
Investigative Case Activity			
Cases Opened	87	71	157[1]
Cases Closed	71	66	137
Cases Active at the End of the Reporting Period	382	380	380

[1] One case previously listed as opened during SAR 54 was subsequently closed

	Six-Month Period Ending 3/31/2007	Six-Month Period Ending 9/30/2007	FY 2007 Total
Prosecutorial Decisions - Accepted - Denied	191 92 99	107 57 50	373[2] 197[3] 176[4]
Investigative Results			
Indictments/Informations	57	50	111[5]
Convictions/Pleas	59	48	111[6]
Fines Ordered	$12,600	$58,044	$71,236[7]
Restitution Payments Ordered	$3,373,295.95	$7,216,107.51	$10,611,841.46[8]
Civil Settlements/Judgments (number)	6	9	19[9]
Civil Settlements/Judgments (amount)	$482,452	$19,134,228.36	$19,656,636.36[10]
Recoveries	$91,324.50	$414,946	$526,907.98[11]
Forfeitures/Seizures	0	0	0
Savings	$246,620.69	$9,050	$929,654.69[12]

[2] Includes 75 cases that were not previously reported in SAR 54
[3] Includes 48 cases that were not previously included in SAR 54
[4] Includes 27 cases that were not previously included in SAR 54
[5] Includes 4 cases that were not previously included in SAR 54
[6] Includes 4 cases that were not previously included in SAR 54
[7] Includes $592 not previously included in SAR 54
[8] Includes $22,438 not previously included in SAR 54
[9] Includes 4 cases not previously included in SAR 54
[10] Includes $39,956 not previously included in SAR 54
[11] Includes $20,637.48 not previously included in SAR 54
[12] Includes $673,984 not previously included in SAR 54

U.S. Department of Education
Margaret Spellings
Secretary

Office of Inspector General
John P. Higgins, Jr.
Inspector General

Mary Mitchelson
Counsel to the Inspector General

November 2007

To order copies of this report:

Write to: ED Pubs, Education Publications Center, U.S. Department of Education, P.O. Box 1398, Jessup, MD 20794-1398; or

Fax your request to 301-470-1244; or

E-mail your request to: edpubs@inet.ed.gov; or

Call in your request toll-free: 1-877- 433-7827 (1-877-4-ED-PUBS). If 877 service is not yet available in your area, call 1-800-872-5327 (1-800-USA-LEARN). Those who use a telecommunications device for the deaf (TDD) or a teletypewriter (TTY), should call 1-877-576-7734; or

Order online at: www.edpubs.org/.
On request, this publication is available in alternative formats, such as Braille, large print or computer diskette. For more information, please contact the Department's Alternate Format Center at 202-260-0852 or 202-260-0818.

Please Note: The *Inspector General's Semiannual Report to Congress, No. 55* and reports discussed herein are available on the Department's Web site at: http://www.ed.gov/offices/OIG.

Anyone knowing of fraud, waste or abuse involving U.S. Department of Education funds or programs should call, write or e-mail the Office of Inspector General.

Call toll-free:
The Inspector General Hotline
1-800-MISUSED (1-800-647-8733)

Or write:
Inspector General Hotline
U.S. Department of Education
Office of Inspector General
550 12th St. S.W.
Washington, DC 20024

Or e-mail:
oig.hotline@ed.gov

Your report may be made anonymously or in confidence.

For information on identity theft prevention for students and schools, visit the Office of Inspector General Identity Theft Web site at: www.ed.gov/misused

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

www.ed.gov